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June 20, 2014

VIA U.S. MAIL & EMAIL (jeffrey.j.draeger.mil@mail.mil)

The Honorable Frank Kendall
Under Secretary of Defense
Acquisition, Technology, and Logistics
3010 Defense Pentagon
Washington, DC 20301-3010

Dear Under Secretary Kendall:

I write to you in furtherance of my continuing oversight interest in the Air Force's Evolved Expendable Launch Vehicle (EELV) program and concern about that program's reliance on Russian sources of supply for the RD-180 engine and to follow-up on the June 10, 2014, letter I received from Secretary of the Air Force James on that issue.

Today, I inquire about the circumstances under which the Air Force has acquired, and may continue to acquire, the RD-180. Also, given the possibility that the Air Force is paying for these engines at highly inflated prices, I am inquiring whether the actual costs associated with their manufacture, which may be baked into those prices, are fair and reasonable—despite that the Air Force is buying them on a firm fixed-price basis.

I am, in particular, interested in learning more about a company called RD Amross, the company from which United Launch Alliance (ULA) actually buys the RD-180 for use in EELV missions. It appears that RD Amross is a joint venture between P&W Power Generation Inc. and International Space Engines, Inc., a Delaware-registered subsidiary of the engine's Russian manufacturer NPO Energomash.

Very little information is publically available on the actual costs to build the Russian RD-180 engine compared to what ULA pays for them. But, I am aware of claims that the engines have been sold by NPO Energomash to RD Amross at a much lower price than RD Amross charges ULA for them.

Such information is particularly troubling given that, by reputation and recent examination by, among others, the World Bank and the Center for International Private Enterprise, the Russian procurement process is rife with inefficiency and corruption that benefits insiders while boosting retail prices.

Given the foregoing and the opacity of costs associated with the procurement of the RD-180, it is important for the Air Force to establish affirmatively the fairness and reasonableness of

how much it (and therefore the U.S. taxpayer) is paying for the RD-180—despite the fact that it procures the RD-180 under a firm fixed-price contract line item.

As you know, the Senate Armed Services Committee passed, as part of the Fiscal Year 15 National Defense Authorization Act, measures that would (1) prohibit the Department of Defense from entering into a new contract or renewing a current contract for space launch supplies, including rocket engines, if they would be provided by Russian suppliers, and (2) provide \$100 million in funding transfer authority for the development of a domestically produced rocket for the EELV program. However, Congress ultimately needs to know more about circumstances under which the Air Force has acquired, and may continue to acquire, the RD-180 to make related policy decisions on a fully informed basis.

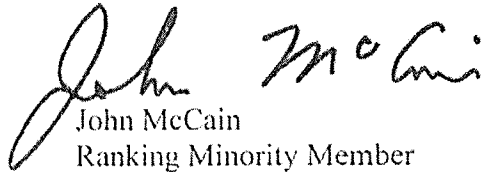
In order to address this important issue, please provide responses to the following questions:

1. Please explain in detail how the RD-180 is procured in support of the EELV program—with references to NPO Energomash and RD Amross as relevant.
2. Please describe to the best of your knowledge the business organizational structure of RD Amross, including identifying all nominal and beneficial owners of that company, as well as the owners (nominal and beneficial) of International Space Engines, Inc.
3. Given that RD Amross does not directly produce the RD-180 engines ultimately used by ULA, what do you understand RD Amross's business purpose to be and what value, if any, does it provide in connection with the manufacture of the RD-180?
4. Please explain the extent to which the Air Force, *i.e.*, the U.S. taxpayer, pays for any service or product supplied by RD Amross—independent of NPO Energomash—in connection with the Air Force's purchase of rocket cores, which includes the RD-180, from ULA?
5. For how much does NPO Energomash sell the RD-180 to RD Amross? For how much does RD Amross subsequently sell the RD-180 to ULA? For how much does ULA sell the RD-180 to the Air Force?
6. On information and belief, ULA—and ultimately the Air Force—buys the RD-180 for a price that is significantly more than how much NPO Energomash sells that same engine to RD Amross, resulting in the U.S. taxpayer essentially giving a Russian company a profit by perhaps more than 200 percent. Is this allegation accurate? Please explain your answer and, if the claim I cite is accurate, tell me if this is (a) a reasonable rate of return and (b) in line with what may be payable under applicable DOD procurement rules and regulations for procurement contracts of this type.

7. Of the cost that ULA pays RD Amross for the RD-180, how much is paid to P&W Power Generation Inc. and NPO Energomash's subsidiary International Space Engines Inc. in their capacities as co-owners of RD Amross? In other words, for whom do the profits (the difference between RD Amross' costs and its sales price to ULA) accrue—P&W Power Generation Inc., International Space Engines, Inc., or others?
8. On June 16, 2014, ULA announced its interest in producing a domestically-produced version the RD-180 or an entirely new launch system. According to its press release, ULA signed contracts with multiple domestic companies to "conduct technical feasibility analysis, develop high fidelity [sic] plans, identify schedule, cost and technical risks, as well as cost estimates to meet aggressive recurring cost targets" for the next generation first stage rocket replacement to support a first launch by 2019. What identified, approved and validated operational requirements, if any, support the development of an entirely new engine for the EELV program?
9. RD Amross CEO Bill Parsons stated in a November 18, 2013, interview with *Space News* that a domestically-produced RD-180 "would definitely increase the price significantly". What is the Department of Defense's current preliminary estimate of how much it would cost to develop a domestically-produced RD-180 and, separately, an entirely new engine for the EELV program?

Thank you for your attention to this important matter. If you have any questions or concerns, please have your staff contact Jack Thorlin, Counsel to the Minority, Permanent Subcommittee on Investigations, at (202) 224-2224.

Sincerely,

A handwritten signature in black ink, appearing to read "John McCain". The signature is fluid and cursive, with the first name "John" and last name "McCain" clearly distinguishable.

John McCain
Ranking Minority Member
Permanent Subcommittee on Investigations